

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 NEA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

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SS-20 USIA-15 COME-00 TRSE-00 FEA-02 SCI-06 INT-08

IO-14 AID-20 DRC-01 /161 W
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R 291153Z JAN 74

FM AMEMBASSY MONROVIA

TO SECSTATE WASHDC 0830

INFO USINT ALGIERS

AMEMBASSY BANJUL

AMEMBASSY CONAKRY

AMEMBASSY FREETOWN

AMEMBASSY JIDDA

AMEMBASSY TRIPOLI

C O N F I D E N T I A L MONROVIA 0619

E.O. 11652: GDS

TAGS: ENRG, XY, LI

SUBJECT: ENERGY - LIBERIA SEARCHES VAINLY FOR WAY OUT OF CRISIS

REF: A. MONROVIA A-171 OF 12/20/73 (NOTAL)

B. MONROVIA 0500 (NOTAL)

C. MONROVIA 0381 (NOTAL)

D. FREETOWN 0133 (NOTAL)

1. REF A CONTAINED PRELIMINARY PROJECTIONS OF DRASTIC EFFECT
HIGHER PETROLEUM PRICES AND OTHER FACTORS MAY HAVE ON LIBERIA'S
BALANCE OF TRADE AND PAYMENTS DURING 1974. PRESENT PROSPECT
IS FOR IMPORTED PETROLEUM (CRUDE AND PRODUCTS) TO COST NATION
IN EXCESS \$52.0 MILLION IN 1974, UP MORE THAN \$36.0 MILLION
FROM ESTIMATED LEVEL OF \$16.0 MILLION IN 1973. IN ADDITION
TO EFFECT ON TRADE AND PAYMENTS POSITION, HOWEVER, HIGHER
PETROLEUM PRICES EXPECTED HAVE SERIOUS IMPACT ON PROFITABILITY
LIBERIA'S EXPORT SECTOR, ESPECIALLY THE IRON MINES, THEREBY
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SERIOUSLY REDUCING GOL REVENUES.

2. LIBERIA'S FOUR IRON MINES NORMALLY PROVIDE IN EXCESS OF 17 PER CENT OF GOL REVENUES UNDER PROFIT SHARING PLAN. HOWEVER, LARGEST MINE REPORTS THAT INCREASE OF ONE CENT PER GALLON IN REFINERY PRICE FUEL OIL INCREASES ITS COST BY \$500,000 ANNUALLY. SINCE THIS HIGHLY EFFECIENT MINE PRODUCING MORE THAN HALF COUNTRY'S TOTAL EXPORTS, EFFECT ON OTHER MINES PROBABLY EVEN MORE SEVERE. THEREFORE, 8 CENTS PER GALLON REFINERY PRICE INCREASE GRANTED LATE LAST YEAR (MONROVIA 6046 OF 11/3/73) MAY INCREASE COST OF OPERATION ALL MINES BY MORE THAN \$8 MILLION DURING 1974, OF WHICH GOL WILL LOSE APPROXIMATELY \$4 MILLION IN REVENUES. EXPECTED REFINERY PRICE*INCREASES THROUGH 1974 (NOW ESTIMATED AT A FURTHER 8 CENT RISE BY END OF JANUARY OR EARLY FEBRUARY AND THEN ADDITIONAL INCREASES OF 5 TO 7 CENTS PER GALLON EACH QUARTER) WILL FURTHER EXACERBATE SITUATION. IT NOT INCONCEIVABLE THAT TWO MARGINAL MINES, ONE OWNED BY GOL, MIGHT BE FORCED SUSPEND OPERATIONS UNLESS IRON ORE PRICES RISE TO KEEP PACE WITH PETROLEUM COSTS.

3. EFFECT OF FUEL COSTS ON SECOND RANKING NATURAL RUBBER INDUSTRY LESS SIGNIFICANT SINCE ENERGY CRISIS HAS SPARKED SHARP RISE NATURAL RUBBER PRICES.

4. GOL PROBABLY FIRST BECAME AWARE EXTENT OF PROSPECTIVE DAMAGE ENERGY CRISIS MIGHT HAVE ON LOCAL ECONOMY DURING PRICE NEGOTIATIONS WITH SUNOCO'S LIBERIA REFINING CO. (LRC) LATE LAST YEAR. LRC WHICH OWNS AND OPERATES LIBERIA'S ONLY REFINERY (A 4 MILLION BARREL/YEAR FACILITY), WAS NOT ONLY FEELING COST SQUEEZE IMPOSED BY RISING CRUDE AND TANKER COSTS BUT WAS ENCOUNTERING GRAVE PROBLEMS IN CONTRACTING CRUDE SUPPLIES FOR 1974. AFTER HEATED NEGOTIATIONS, GOL GRANTED LRC REQUEST FOR 8 CENT/GALLON REFINERY PRICE INCREASE ON ALL PRODUCTS, AND THEN TURNED ITS ATTENTION TO SUPPLY PROBLEMS.

5. IN MID-DECEMBER GOL MISSION HEADED BY MIN FINANCE STEPHEN A. TOLBERT (BROTHER OF PRESIDENT TOLBERT) TRAVELLED TO ALGERIA AN SAUDI ARABIA (MONROVIA 6802) TO DISCUSS CRUDE OIL SUPPLY PROBLEMS WITH OFFICIALS THOSE COUNTRIES. LITTLE IS KNOWN OF RESULT OF MEETINGS IN ALGIERS, BUT MEETING WITH SHEIK CONFIDENTIAL

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YAMANI IN RIYADH LED TO REAFFIRMATION OF SAUDI "GUARNATEE" OF LIBERIA'S CRUDE REQUIREMENTS. HOWEVER, DESPITE TOLBERT'S EFFORTS, YAMANI REPORTEDLY UNWILLING ENTER INTO GOVERNMENT-TO-GOVERNMENT SUPPLY AGREEMENT. INSTEAD, HE INSISTED THAT LRC CONTINUE TO PURCHASE FROM PREVIOUS SUPPLIER, EXXON, AND SAUDIS WOULD UNDERTAKE MEASURES ASSURE EXXON OF SUFFICIENT CRUDE TO MEET LRC NEEDS.

6. ON MATTER OF CRUDE PRICES (WHICH NOW RESULT IN SAUDI CRUDE LANDED IN LIBERIA AT \$11 PER BARREL), SHEIK YAMANI WAS LESS FORTHCOMING. HE POINTED OUT THAT OPEC AGREE ENT REQUIRED MEMBER COUNTRIES ADHERE TO POLICY OF SINGLE PRICE FOR ALL PURCHASERS. THE SHEIK DID, HOWEVER, ASSURE TOLBERT THAT HE AWARE OF PROBLEM POSED BY HIGH OIL PRICES FOR DEVELOPING COUNTRIES AND INTIMATED VAGUELY THAT SOME FORM OF SUBSIDY FROM PRODUCERS TO POOR CONSUMERS MIGHT BE IN ORDER.

7. SINCE MINISTER TOLBERT'S RETURN FROM MIDDLE EAST HE HAS CONTINUED TO FOLLOW SITUATION CLOSELY. IN EARLY JANUARY HE TRAVELLED TO SIERRA LEONE AND GUINEA (FREETOWN 0133, MONROVIA 0381) TO DISCUSS PETROLEUM SUPPLY/PRICING PROBLEMS AND BEGIN EXPLORATION OF POSSIBLE REGIONAL APPROACH TO PROBLEM. IN CONVERSATION WITH AMBASSADOR ON JANUARY 16, PRESIDENT TOLBERT EXPRESSED GREAT CONCERN OVER EFFECT ENERGY CRISIS ON DEVELOPING COUNTRIES AND SAID THAT, AS VICE PRESIDENT RECENT NON-ALIGNED CONFERENCE IN ALGIERS, HE CONSIDERING RAISING ISSUE WITH CONFERENCE PRESIDENT BOUMEDIENNE. PRUPOSE THIS INITIATIVE, WHICH BELIEVED BE STILL IN THINKING STAGE, WOULD BE HAVE BOUMEDIENNE SPARK FURTHER ACTION BY PRODUCING COUNTRIES TO ALLEVIATE COST SQUEEZE ON DEVELOPING COUNTRIES. PRESIDENT ALSO CONFIRMED THAT GOL CONSULTING WITH GUIENA, SIERRA LEONE AND THE GAMBIA TO SEE IF THERE POSSIBILITY JOINT ACTION TO RELIEVE PRICE SITUATION.

8. WE NOW UNDERSTAND MINISTER STEPHEN TOLBERT PLANS VISIT LIBYA AND PROBABLY SAUDI ARABIA IN NEXT FEW WEEKS IN FURTHER ATTEMPT NEGOTIATE MORE FAVORABLE CRUDE PRICES. UNFORTUNATELY, WHILE GOL, WITH BACK AGAINST WALL, HAS NO CHOICE BUT TO CONTINUE SUCH EFFORTS, FEW HERE EXPECT MISSION WILL PROSPER MORE THAN marginally.

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